

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
Proposals Eight and Nine

Docket No. RM2012-8

INITIAL COMMENTS OF THE PUBLIC REPRESENTATIVE

(October 29, 2012)

Respectfully Submitted,

/s/ Lawrence Fenster
Public Representative for
Docket No. RM2012-8

901 New York Ave, N.W. STE 200
Washington, DC 20268-0001
(202) 789-6862; Fax (202) 789-6881
larry.fenster@prc.gov

INTRODUCTION AND BACKGROUND

On September 28, 2012, the Postal Service filed a petition, pursuant to 39 CFR § 3050.11, requesting that the Commission initiate an informal rulemaking proceeding to consider two proposals to change the analytical methods approved for use in periodic reporting: Proposal Eight and Proposal Nine (“Petition”).¹

Proposal Eight

The Postal Service proposes to move the machinable and irregular cost worksheets contained in the Standard Mail parcel mail processing cost model to the Parcel Select/Parcel Return Service mail processing cost model and relabel the worksheets as “Lightweight Parcel Select.” Petition at 3. After forecasting volumes, costs, revenues that would result from the prices proposed in Docket No. CP2012-2, the Commission determined the services proposed for transfer would cover their attributable costs. Docket No. CP22012-2, Order 1062 at 13.

The transfer became effective January 2012, once the Postal Service implemented new prices. The Postal Service’s proposal reflects the change in the classification of lightweight Standard Mail Parcels by moving lightweight Standard Parcels into the Parcel Select / Parcel Return Service mail processing cost model. *Id.* at 3. The Postal Service also notes that the approval will impact the worksharing discounts for both Standard Mail and

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Eight And Nine), Docket No. RM2012-8, submitted September 28, 2012.

Parcel Select Mail, but those values will not become available until it files the FY 2012 Annual Compliance Report.

The Public Representative supports this proposal. The Postal Service is using the same mail processing model it used when these products were market dominant. It appears that wage increases are the only cost differences from those presented in ACR FY 2011. It is reasonable to use the same mail processing cost model to estimate the unit costs of the same product, adjusted for wages and other exogenous events.

Proposal Nine

The Postal Service proposes to make eight modifications to the Periodicals Flats models. It proposes to apply four of the modifications to the First Class Mail and Standard Mail Flats models (Numbers 1, 3, 5, and 6). *Id.* at 5.

Modification 1 - Remove "Switches" from Docket No. RM2012-2 Model

This modification would remove a worksheet that allowed one to toggle between previous flats mail processing cost model assumptions or calculations and changes that were ultimately accepted by the Commission. The Postal Service would move information not yet accepted by the Commission to a new worksheet entitled "FSS Parameters." Since the Commission has already approved these modifications there is no need to retain the ability to view the

effect of superseded assumptions. The Public Representative agrees with Modification 1.

Modification 2 – Correction of Summary Statistics

A comparison of the Periodical Mail Processing Cost Model filed in RM2012-2, and this Docket appear to show that several of the cells FSS cells in the “Bundle Cost CRA” worksheet were misdirected to 5-digit container cells, and vice versa.² The proposed modification would correct this minor error. The Public Representative supports Modification 2.

Modification 3 – Enhanced Reject Flows

Modification 3 proposes new methods of calculating the reject rates at different sort levels for the AFSM 100 and the FSS in the three “Flats” mail processing cost models.³ The Postal service states that “modification 3 makes AFSM 100 reject flows consistent with MODS measured TPH and TPF measures. *Id.* at 6. It does this by calculating a measure akin to the implied service-wide acceptance rate of TPF/TPH; namely (Sorted Mail/Fed Mail)⁴ at OP, OS, MMP, and SCF. It then calculates the share of FSS mail that is rejected because of an incorrect sort scheme, and FSS mail that is rejected for all other reasons. The Postal Service then apportions FSS reject mail to these

² Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Sixteen through Twenty), Docket No. RM2012-2, Prop18PERFlats.xls.

³ The Public Representative will base its comments on the changes shown to the Periodicals model.

⁴ Both values are taken from WebEOR. Fed, and possibly sorted mail, is not the same as TPF and TPH found in worksheet “MODS Data E23”, in the Flats’ Models.

categories based on the category's share of FSS reject mail.⁵ It states that "Out-of-scheme rejects are modeled to flow from the FSS operation to IP processing on the AFSM 100. In-scheme rejects are modeled to flow to IS processing on the AFSM 100. *Id.* at 6.

The Public Representative generally accepts the notion that mail rejected from mechanized sortation adds costs that should be accounted for in the mail processing models. However, the Postal Service's method of adding rejected FSS scheme and non-scheme mail in the flats mail processing models appears to be inconsistent with, at least part of, its explanation. For example, it estimates the volume of FSS scheme and non-scheme mail routed to an AFSM 100 using the sort/fed ratio, for each OP, OS, MMP, and SCF sort level.⁶ Yet, it also explains that FSS reject mail will be routed to the AFSM 100 at either IP processing or IS processing. Only the new SCF reject rates would capture incoming processing rejects.

The Public Representative requests the Commission determine whether this is a discrepancy that requires modification prior to accepting this proposal. Moreover, some of the FSS reject rates may be based upon sack or pallet breakage, which affects bundle downflow and ultimately both allied and direct piece costs. By including all non-scheme FSS breakage to pieces, any FSS-related bundle breakage will affect only direct, not allied, piece costs. The Public Representative recommends bundle, sack and pallet breakage be included in the study updating the bundle breakage rates. The current method

⁵ See PER.OC.Flats.0915.xls, Sheet: "Accept Rates," cells I14:J17.

⁶ See e.g., PER.OC.Flats.0915.xls, Sheet: "Accept Rates," and Petition at 6.

would then need to be modified to remove the impact of FSS container breakage.

Modification 4 – Improved Piece Allied Flows

The Postal Service states that “[m]odification 4 makes changes to the modeled allied flows to reflect operational realities.” *Id.*, at 9. It does not explain what operational realities are being changed, but they are reflected in the new worksheets in the model. It appears that the Postal Service’s new operations send a greater amount of mechanized MADDC, ADC, 3d, and 5d mail to allied operations at the DSCF; and allied operations are assigned to the FSS at the DSCF for the first time. The Postal Service has not provided any explanation, or justification, for the altered operational flows. While they are undoubtedly the result of processing mail on the FSS, the Postal Service does not explain why or how the level of allied operations is altered. Its new “mailflow” worksheets provide some insight into proposed allied operations, but it does not compare these mailflows to previous mailflows so that participants might understand the cause of greater allied costs being incurred at the DSCF, which generally raises allied costs, especially for all mechanized mail. The Public Representative urges the Postal Service to explain the causes of increased allied costs for mechanized mail so the Commission may judge whether these volume flows, do in fact, reflect current allied operations.

Modification 5 – Class-Specific FSS Coverage factors

The Postal Service states that the previous version modeling the mail processing costs of the FSS

“assumed that the distribution of mail across mail class being processed on the FSS was similar to the national distribution of mail across class. This assumption is not supported by operational practice or cost systems. Unit cost estimates from the CRA indicate that First-Class Mail incurs lower FSS cost than either Standard or Periodicals.” *Id.*, at 10-11.

The PR agrees that these different products have different shares of volume processed on the FSS. It also agrees that coverage factors for these products should be based on their share of FSS volume. Unfortunately, the Postal Service uses each “product’s” share of FSS attributable costs to determine coverage rather than volume. However, one would expect that a larger volume of First Class Flats could be processed on the FSS than Periodicals during the same amount of time. Using cost shares underestimates First Class Flat coverage relative to Standard Flats and Periodicals Flats.

While the Postal Service has used IOCS costs as a proxy for volumes in its Periodicals model before, it has not provided a reason volume shares cannot be obtained in this case.⁷ The PR recommends the Commission determine whether volume shares may be obtained for these Flat’s products, and if so, have the Postal Service use them rather than cost shares. If they are not available, the PR recommends the Commission determine whether

⁷ See, Docket No. RM2010-6 Order, No. 400, Proposal 29.

they may be made available at reasonable cost, and if so establish an appropriate timeline for the provision of volume shares.

Modification 6 – Moving PO Box distribution to non-modeled

The Postal Service states that it now able to determine the incidence of distribution to all PO Boxes since the culmination of Docket No. RM2011-12. Id., at 11. These costs were not previously included in the mail processing cost models, and were considered “non-modeled.” The Postal Service proposes to include the cost of distributing mail to both MODS and Non-MODS PO Boxes in the category of “non-modeled” now that it is able to determine the incidence of distribution to all PO Boxes. The PR supports this proposal.

Modification 7 – Updating container cross-docking estimates

The Postal Service notes that the current method of determining the number of handlings containers receive at various entry levels has been largely derived from a national survey of Periodicals Mail.dat files taken from the eVS system. Petition at 12. In this modification, the Postal Service proposes using data from most of the universe of information it is able to extract from a transportation database, making various assumptions to develop a complete matrix of origin/destination pairs, stratifying publications on size and other characteristics, extracting handlings by mapping the O/D pair for each container in Mail.dat files with the transportation matrix, and using smoothing techniques to impute values to zero-valued handlings. The Postal

Service states that “there are many sparsely populated cells.” *Id.*, at 14. It concludes by noting that its proposed method obtains handling estimates generally similar to currently accepted values.

The Public Representative supports using a continually updated transportation database to estimate handlings. Doing so, could allow an annual update of the number of handlings, and would be an improvement to the current methodology. However, it is not clear whether the Postal Service’s transportation database is updated annually. Nor is it clear the data cleaning methods of the Postal Service are successful or have been tested for accuracy. The PR recommends the Commission ask the Postal Service several clarifying questions before accepting this proposal:

- Is the transportation database annually updated?
- How much of the universe of O/D pairs does this database encompass?
- What purpose is served by stratifying publications by size and density, etc?
- Does this mean a sample is taken from the database?
- Is the smoothing process, which substitutes imputed values for missing values, the same smoothing process used for all other cross-docking estimates?
- Please show the calculations which comprise each type of smoothing.
- What is the percent of missing values at each entry level?

The Postal Service says the estimates “are generally similar to those provided in Docket No. R2006-1. *Id.*, 15. The Table 1 below shows the change in the number of facilities through which sacks and pallets pass by entry level using the current method minus to the proposed method.

Table 1
Cross Docking Changes Resulting from the Proposed Method

Entry	Container Type								
	Sack Type						Pallet Type		
	MADC	ADC	SCF/3D	5-Digit	5-D CR	CR	ADC	SCF/3D	5-Digit
OSCF	0.000	-0.193	0.025	0.203	0.312	0.113	-0.177	0.348	0.488
OADC	0.000	-0.101	-0.014	0.140	-0.044	0.246	-0.128	0.471	0.249
OBMC	0.000	1.157	0.939	0.811	0.972	1.002	-0.065	-0.633	-0.718
DBMC	0.000	0.000	0.067	0.099	0.057	-0.034	0.000	0.101	-0.005
DADC	0.000	0.000	0.048	0.042	0.017	0.000	0.000	-0.007	0.008
DSCF	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

The table shows that the entry at the OBMC has resulted in the largest increase in number of cross-docked sacks and the greatest decrease in cross-docked pallets. This seems to be the sort of result one would expect from an increase in the processing of FSS volume.

The Public Representative requests the Commission determine the extent to which this is due to the increase in FSS mail processing and the change in methodologies. If the change is due primarily to the methodology change, it would not be capturing a changed operational reality. Since the proposed method appears simpler to calculate and possibly update, the Public Representative supports the proposal provided the reflected changes are the result of operational changes rather than estimating methods.

Modification 8 – Simplification of Modeled Container Handling Costs

The Postal Service proposes to simplify “the calculation of container costs by recognizing that, in the context of such models, the facility type is not a relevant factor.” *Id.*, 18. Instead it subtracts 1 cross dock from the origin facility, determines the number of downstream cross docks needed, and takes the sumproduct of cross docks and base costs (with the exception of MADC

sacks).⁸ This method yields the identical container cost by entry facility as the previous method, but is substantial reduction in workload. For these reasons, the Public Representative supports this proposal.

⁸ See, e.g., PER.OC.Flats.0915.xls, Sheet: "MADC SACKS."